

Message Text

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SUBJECT: COMMISSION PLANS TO TAKE STEPS TOWARD LIBERALIZING
EC CAPITAL MARKETS

REF: (A) EC A-36, (B) EC A-43, (C) 75 EC A-392, (D) 75 EC
BRUSSELS 10266, (E) EC A-21, (F) EC A-22

1. BEGIN SUMMARY: THE COMMISSION HAS MADE A NUMBER OF PROPOSALS TO HARMONIZE MEMBER STATE REGULATIONS AND ACTIVITIES IN THE AREAS OF COMMERCIAL BANK OPERATIONS, SECURITY TRANSACTIONS AND INSURANCE. SEVERAL NEW PROPOSALS ARE PLANNED SUCH AS ESTABLISHING A COMMON DEPOSIT INSURANCE SCHEME AND CENTRALIZING THE EXCHANGE OF CREDIT RISK INFORMATION. THESE PROPOSALS REPRESENT MODEST FIRST STEPS TOWARD GENERAL LIBERALIZATION OF EC CAPITAL MARKETS. PROGRESS IS PAINFULLY SLOW, HOWEVER, BECAUSE OF MEMBER STATE DESIRES TO CONTROL THEIR OWN CAPITAL MARKETS. END SUMMARY.

2. PRAGMATIC APPROACH: COMMISSION OFFICIALS WHO HANDLE EC FINANCIAL INSTITUTION ACTIVITIES HAVE DESCRIBED US THEIR PLANS FOR LIBERALIZING EC CAPITAL MARKETS. THEY PLAN A SERIES
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OF SPECIFIC, MODEST PROPOSALS WHICH WILL ATTEMPT TO BRIDGE

DISPARATE MEMBER STATE PRACTICES AND SET THE STAGE FOR AN ACCELERATED PACE IN THE FUTURE. TO DEVELOP A SENSE OF COOPERATION AND CONFIDENCE THE COMMISSION WANTS TO CREATE SEVERAL SPECIALIZED CONTACT COMMITTEES COMPOSED OF MEMBER STATE AND COMMISSION EXPERTS. THESE COMMITTEES WILL IMPLEMENT THE DIRECTIVES AND FORMULATE ADDITIONAL LEGISLATIVE PROPOSALS.

3. SLOW PROGRESS: THE MEMBER STATES HAVE BEEN RELUCTANT TO ACT ON A NUMBER OF PAST COMMISSION PROPOSALS TO HARMONIZE VARIOUS ASPECTS OF EC CAPITAL MARKET ACTIVITIES. THIS RELUCTANCE IN PART STEMS FROM THE NINE'S DESIRE TO MAINTAIN CONTROL OVER THEIR OWN CAPITAL MARKETS AND FROM THE DISPARATE PRACTICES OF THE NINE. FOR EXAMPLE, FOR THE PAST FIVE YEARS THE COMMISSION HAS TRIED TO HARMONIZE BANKING REGULATIONS. THE COMMISSION WITHDREW A COMPREHENSIVE PROPOSAL IN 1974 AND SUBMITTED AN UMBRELLA DIRECTIVE WHICH ESTABLISHES THE FRAMEWORK FOR A CONTACT COMMITTEE TO BEGIN DISCUSSING POSSIBLE LEGISLATION TO REGULATE EC BANKS (SEE REF D). MEMBER STATE EXPERTS HAVE HAGGLED OVER THIS GENERAL PROPOSAL FOR NEARLY 18 MONTHS AND THEY ARE STILL FAR FROM REACHING AGREEMENT. AS A RESULT, THE CONTACT COMMITTEE HAS NOT BEEN FORMED. THIS HAS DELAYED OTHER COMMISSION PROPOSALS IN THE BANKING AREA.

4. SECURITY MARKETS: COMMISSION OFFICIALS EVENTUALLY AIM TO SET ONE EC STANDARD FOR SECURITY TRANSACTIONS. COMMON REGULATIONS WOULD REDUCE THE ISSUANCE COSTS AND SIMPLIFY PROCEDURES FOR COMPANIES BORROWING IN SEVERAL MEMBER STATE MARKETS. STANDARDIZATION WOULD ALSO INCREASE THE FLOW OF CAPITAL AND EXPAND COMPETITION WITHIN THE EC. SO FAR THE COMMISSION HAS PROPOSED SETTING MINIMUM CONDITIONS FOR THE PLACEMENT OF SECURITIES ON EUROPEAN STOCK EXCHANGES (REF A), AND COMMON STANDARDS FOR SECURITY PROSPECTUSES (REF B). IT PLANS SHORTLY TO PROPOSE THE COORDINATION OF LAWS GOVERNING MUTUAL FUND OPERATIONS (REF C). IT HAS ASKED FOR AUTHORITY TO SET UP A CONTACT COMMITTEE COMPOSED OF STOCK EXCHANGE OFFICIALS WHICH WOULD BEGIN DISCUSSING OTHER POSSIBLE LEGISLATION. COMMISSION OFFICIALS WOULD ESPECIALLY LIKE THE COMMITTEE TO ESTABLISH CONSULTATIVE PROCEDURES TO HANDLE CASES IN WHICH A MEMBER STATE WITHDRAWS A SECURITY FROM ITS MARKET. (COMMENT: DESPITE LIMITED OFFICIAL USE

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COMMISSION HOPES FOR PROMPT ACTION, IT WILL LIKELY TAKE AT LEAST TWO YEARS OF INTENSIVE MEMBER STATE REVIEW OF THESE PROPOSALS BEFORE THE COUNCIL IS READY TO ACT. THE REVIEW PROCESS WILL LIKELY SUBSTANTIALLY MODIFY THE COMMISSION PROPOSALS.)

5. DEPOSIT INSURANCE SCHEME: AS PART OF ITS 1976 WORK PROGRAM, THE COMMISSION PLANS TO PROPOSE AN EC DEPOSIT INSURANCE SCHEME, SOMEWHAT ALONG THE LINES OF THE FDIC. SEVERAL MEMBER STATES

ALREADY HAVE SUCH A SCHEME BUT THESE SCHEMES VARY IN AMOUNTS OF INSURANCE, COST AND APPLICATION. BELGIAN DEPOSIT INSURANCE, FOR EXAMPLE, COVERS ONLY DEMAND DEPOSITS, BUT NOT TIME DEPOSITS. COMMISSION OFFICIALS PLAN AN EC SCHEME TO COVER BOTH TYPES OF DEPOSITS, PERHAPS UP TO A MAXIMUM EQUIVALENT TO ABOUT \$10,000. THEY ALSO WANT TO KEEP TO A MINIMUM THE LEGAL STRUCTURE AND CONTROL AUTHORITY OF AN EC SCHEME. COMMISSION OFFICIALS, NEVERTHELESS, EXPECT MEMBER STATE RESISTANCE BECAUSE AND EC DEPOSIT INSURANCE SCHEME WOULD ADD TO BANK COSTS. COMMISSION OFFICIALS BELIEVE, HOWEVER, THAT THE ADDED COSTS WILL BE MINIMAL. IN ADDITION, INCREASED SECURITY SHOULD INCREASE PUBLIC INTEREST IN BANK DEPOSITS. (COMMENT: PERMDEL OFFICIALS ARE SKEPTICAL ABOUT THE FEASIBILITY OF AN EC INSURANCE FACILITY BECAUSE THOSE MEMBER STATES WHICH ALREADY HAVE THEIR OWN FACILITIES WILL NOT WANT TO MODIFY THEIRS TO MEET EC STANDARDS. MEMBER STATES, WITHOUT A SCHEME, WILL NOT WANT TO ADD TO BANK COSTS.)

6. EXCHANGE OF CREDIT RISK INFORMATION: THE COMMISSION IS ALSO CONSIDERING PROPOSING ESTABLISHING A COMMON CENTER FOR EXCHANGING INFORMATION AMONG BANKS ON CREDIT RATINGS AND RISK OF PROSPECTIVE BORROWERS. FOUR MEMBER STATES HAVE SUCH NATIONAL CENTERS FOR EXCHANGING SUCH INFORMATION BUT THEY VARY IN BREADTH OF OPERATIONS, DEGREE OF SECRECY AND EFFECTIVENESS. COMMISSION OFFICIALS DO NOT WANT TO ESTABLISH A CENTRAL EC-OPERATED CENTER BECAUSE THEY WANT TO AVOID CREATING ANOTHER AGENCY AND ADDING TO OVERHEAD COSTS. INSTEAD, THEY HAVE IN MIND A COOPERATIVE ARRANGEMENT MANAGED BY THE APPROPRIATE MEMBER STATE AUTHORITIES AND OPERATED BY THE CREDIT INSTITUTIONS INVOLVED.

7. INSURANCE: OVER THE PAST THREE YEARS THE COMMISSION HAS SUBMITTED FOUR PROPOSALS TO HARMONIZE VARIOUS ASPECTS OF EC LIMITED OFFICIAL USE

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INSURANCE OPERATIONS (SEE REFS E, F). EXCEPT FOR A DIRECTIVE COORDINATING DIRECT INSURANCE ACTIVITIES OTHER THAN LIFE INSURANCE, THE COUNCIL HAS SO FAR FAILED TO TAKE ACTION ON THESE PROPOSALS. COMMISSION OFFICIALS EXPECT THE MEMBER STATES TO DELIBERATE OVER THE OUTSTANDING PROPOSALS FOR SOME TIME.

8. CONCLUSION: MEMBER STATES CONTINUE TO RESIST EVEN INITIAL MODEST STEPS TO LIBERALIZE CAPITAL MARKETS. IT IS CLEAR THAT THE EC WILL FALL FAR SHORT OF THE ROME TREATY TARGET OF FULLY LIBERALIZING CAPITAL MARKETS BY 1978. IN FACT, EVEN A PRAGMATIC, SETP-BY-STEP APPROACH IS LIKELY TO BECOME AN AGONIZINGLY SLOW PROCESS. MORRIS

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